

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 8146

BILL NUMBER: HB 1001

DATE PREPARED: Feb 25, 1999

BILL AMENDED: Feb 24, 1999

SUBJECT: State Budget.

FISCAL ANALYST: Alan Gossard, Jim Sperlik

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FUNDS AFFECTED: X GENERAL
X DEDICATED
X FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *State Budget*: This bill appropriates state money for the biennium beginning July 1, 1999, and ending June 30, 2001. The bill also authorizes certain capital projects.

Swap Agreements: The bill amends the law concerning swap agreements.

Education: The bill establishes the Reading Diagnostic and Remediation Program and Fund. It also establishes a grant program for full day kindergarten and school readiness programs beginning in the 2000-2001 school year. The bill revises the Primetime formula. It also provides for school funding.

Supplemental Wastewater and Drinking Water Assistance Funds: The bill combines the Supplemental Wastewater Assistance Fund and the Supplemental Drinking Water Assistance Fund.

County Welfare Funds and Property Taxes: The bill eliminates the authority of a county to impose a property tax levy for the County Welfare Fund, the County Welfare Administration Fund, and the County Family and Children's Fund. It also makes conforming amendments. The bill also reduces the minimum annual increase in civil unit maximum general fund levies from 5% to 4%. It also limits the maximum civil unit levy increase to 8% instead of 10%.

Tax Provisions: The bill provides an inventory tax credit equal to the amount of ad valorem property taxes that would be paid on inventory with an assessed value not exceeding \$12,500. It also provides that for each school year beginning in 1999 and thereafter, a student or the student's parent, guardian, or custodian is entitled to a credit against the first \$50 of charges imposed by a school corporation or an accredited nonpublic school for rental fees or other costs for each student's textbooks or materials. The bill also establishes the Targeted Tax Relief Fund. It provides that money in the Targeted Tax Relief Fund is appropriated to pay inventory tax credits and textbook credits. The bill also increases individual and nonchild dependent exemptions by \$500 and makes the \$500 dependent child exemption permanent beginning with the 1999 taxable year.

Pension Relief Fund: The bill provides that \$30,000,000 of surplus lottery revenue is transferred each year to the Pension Relief Fund.

Twenty-first Century Growth Fund: The bill establishes the Indiana Twenty-first Century Growth Fund for economic development projects.

Children's Health Insurance Program (CHIP): The bill also establishes the Children's Health Insurance Program.

Effective Date: (Amended) July 1, 1998; January 1, 1999; Upon Passage; July 1, 1999; January 1, 2000; January 1, 2001; March 1, 2000.

Explanation of State Expenditures: (Revised) This bill appropriates funds for the FY2000 and FY2001 biennium. These appropriations are summarized in the following tables.

Total Appropriations (Operating and Capital): FY2000-FY2001.				
Fund Type	FY 2000	FY 2001	Biennial Appropriations	Total Appropriations
General Fund	6,632,331,199	6,959,926,895	1,199,697,870	14,791,955,964
Dedicated Funds	3,387,056,708	3,564,196,440	249,439,660	7,200,692,808
Federal Funds	605,453,718	626,083,138	1,467,100	1,233,003,956
Total	10,624,641,625	11,150,206,473	1,450,604,630	23,225,652,728
Note: These totals are subject to verification with the State Budget Agency.				

Operating Appropriations: FY2000-FY2001.					
Fund Type	FY 2000	FY 2001	Biennial Appropriations		Total Appropriations
General Government					
General Fund	276,820,128	280,460,110	596,001,818		1,153,282,056
Dedicated Funds	31,842,418	30,842,418	1,607,876		64,292,712
Federal Funds			1,467,100		1,467,100
Total	308,662,546	311,302,528	599,076,794		1,219,041,868
Public Safety					
General Fund	601,370,159	611,906,660	34,569,730		1,247,846,549
Dedicated Funds	186,028,499	182,908,375	1,472,500		370,409,374
Federal Funds					
Total	787,398,658	794,815,035	36,042,230		1,618,255,923
Conservation and Environment					
General Fund	74,074,888	74,764,452	10,484,318		159,323,658
Dedicated Funds	114,824,528	114,843,924	1,242,244		230,910,696
Federal Funds					
Total	188,899,416	189,608,376	11,726,562		390,234,354
Economic Development					
General Fund	39,090,088	39,443,510	68,150,000		146,683,598
Dedicated Funds	1,283,788	1,283,788			2,567,576
Federal Funds	1,178,195	1,178,195			2,356,390
Total	41,552,071	41,905,493	68,150,000		151,607,564
Transportation					
General Fund	894,948	912,680			1,807,628
Dedicated Funds	576,056,015	585,718,108	22,223,569		1,183,997,692
Federal Funds	578,092,927	598,722,347			1,176,815,274
Total	1,155,043,890	1,185,353,135	22,223,569		2,362,620,594
Health and Human Services					
General Fund	1,752,667,034	1,820,672,737	13,520,000		3,586,859,771
Dedicated Funds	186,194,885	189,591,752			375,786,637
Federal Funds					
Total	1,938,861,919	2,010,264,489	13,520,000		3,962,646,408
Education					
General Fund	3,887,413,954	4,131,766,746	6,025,000		8,025,205,700
Dedicated Funds	1,274,896,575	1,389,403,075			2,664,299,650
Federal Funds	26,182,596	26,182,596			52,365,192
Total	5,188,493,125	5,547,352,417	6,025,000		10,741,870,542
Property Tax Replacement Fund	1,015,930,000	1,069,605,000			2,085,535,000
Total Operating Appropriations					
General Fund	6,632,331,199	6,959,926,895	728,750,866		14,321,008,960
Dedicated Funds	3,387,056,708	3,564,196,440	26,546,189		6,977,799,337
Federal Funds	605,453,718	626,083,138	1,467,100		1,233,003,956
Total	10,624,841,625	11,150,206,473	756,764,155		22,531,812,253
Note: These totals are subject to verification with the State Budget Agency.					

Capital Appropriations: FY2000-FY2001.				
Fund Type	FY 2000	FY 2001	Biennial Appropriations	Total Appropriations
Build Indiana				
Dedicated Funds			176,888,000	176,888,000
Construction				
General Fund			470,947,004	470,947,004
Dedicated Funds			46,005,471	46,005,471
Total			516,952,475	516,952,475
Total Capital Appropriations				
General Fund			470,947,004	470,947,004
Dedicated Funds			222,893,471	222,893,471
Total			693,840,475	693,840,475
Note: These totals are subject to verification with the State Budget Agency.				

****Federal Funds:** Federal funds that are allocated in this bill appear in the summary tables. However, the bill does not include all federal fund allocations which may be appropriated in statute.

Bonding Authority

Bonding Authority: Bonding authority of \$179,293,000 for state universities is also provided in the bill. However, these amounts are not included in the tables, above. Also authorized in the bill, but not included in the table, are \$12,070,000 in university construction projects financed through lease-purchase arrangements.

Authorized Projects: The bill also authorizes the State Office Building Commission to provide one additional medium security correctional facility and one additional mental health facility. No specific appropriation or bonding authority is provided in the bill.

Children's Health Insurance Program

Children's Health Insurance Program (CHIP) - Costs of Medicaid Expansion: This bill makes permanent the Medicaid expansion for children from families with incomes up to 150% of the federal poverty level (FPL). This expansion was set to expire June 30, 1999. (On June 30, 1999, the eligibility levels will revert to 150% of FPL for infants, 133% of FPL for children aged 1 through 5, and 100% of FPL for children aged 6 through 18.) This provision is estimated to cost \$14.19 million for FY2000, about \$16.95 million for FY2001, and \$17.80 million for FY2002 in state dollars (Total cost = \$52.55 million for FY2000, \$62.77 million for FY2001, and \$65.94 million for FY2002; federal share = \$38.36 million for FY2000, \$45.82 million for FY2001, and \$48.14 million for FY2002). The enrollment and cost estimates were developed by The Lewin Group for the Governor's Children's Health Insurance Advisory Panel.

Costs of CHIP Program: The CHIP program was authorized by Congress in 1997. Indiana's allotment is about \$97.09 million for each of FFY1999 and FFY2000; \$102.41 million for FFY2001; and \$78.47 million for FFY2002. Unused allotments may be rolled over to the next year. Each year's allotment remains available for three years, after which the unused allotment is returned for redistribution to other states. The CHIP program funding also comes with an enhanced federal match of about 73%, compared with the current

federal match under the Medicaid program of about 61%. The reimbursement for expenditures under the CHIP program, as well as the Medicaid expansion described above, will be made at the enhanced rate of 73%.

The estimated cost of the CHIP program for those children between 150% and 200% of the federal poverty level in state dollars is \$6.92 million for FY2000, \$11.73 million for FY2001, and \$12.87 million for FY2002 (Total cost = \$25.64 million for FY2000, \$43.46 million for FY2001, and \$47.66 million for FY2002; federal share = \$18.72 million for FY2000, \$31.73 million for FY2001, and \$34.79 million for FY2002). Although the bill is not specific about the benefit package to be offered, the benefit package described by the CHIP Advisory Panel is used for estimating costs. The cost estimates include direct services, as well as administrative costs. Eligibility requirements may be adjusted by the Family and Social Services Administration (FSSA) based on available program resources. These estimates include the estimated cost of mental health parity until October 2001 when the statutory mental health parity provisions are due to expire.

The Children's Health Insurance Program Fund is also established by the bill. The Fund is to be a revolving fund for the purpose of paying expenses related to the CHIP program. Funds do not revert to the General Fund at the end of a fiscal year. The Fund includes amounts appropriated by the General Assembly and by the federal government, as well as fees, charges, gifts, grants, and donations.

County Welfare: Beginning January 1, 2000, the State Division of Family and Children would be responsible for expenses related to welfare services, child welfare services, and welfare administration. These gross expenditures are estimated at \$154.2 million in FY2000 (½ year), \$325.3 million in FY2001, \$351.3 million in FY2002 and \$369.8 million in FY2003.

The state will save the amount of property tax replacement credit (PTRC) and homestead credit that is currently paid to counties for these funds and the state will also receive excise tax and financial institutions tax (FIT) distributions from the counties. The net additional state cost (additional cost less excise tax, FIT, homestead credit, and PTRC) is estimated at \$106.8 million in FY2000, \$225.5 million in FY2001, \$246.1 million in FY2002, and \$261.0 million in FY2003. This bill appropriates sums sufficient for these purposes.

Education

Education: Full Day Kindergarten and School Readiness Grants: This bill provides three types of grants to finance kindergarten expansion in the state: a kindergarten grant of \$1,500 for each kindergarten student who is enrolled in full time kindergarten (effective July 1, 2000); a school readiness program grant of \$1,200 for each student who is in a school readiness program (effective July 1, 2000); and a program planning grant of \$370 multiplied by the each school corporation's average daily membership (ADM) that is enrolled in kindergarten (effective upon passage). The estimated costs of these programs are based on the assumption that roughly 80% of the state public kindergarten population will enroll in full day kindergarten. The combined costs of this bill are shown in the following table for the biennium:

	<u>FY2000</u>	<u>FY2001</u>	<u>Expiration Date</u>
Planning Grant	\$13,320,000	\$0	July 2, 2000
School Readiness Grant	\$0	\$3,240,000	Jan. 1, 2002
Kindergarten Grant	<u>\$0</u>	<u>\$97,369,200</u>	Jan. 1, 2002
	<u>\$13,320,000</u>	<u>\$100,609,200</u>	

The bill appropriates \$15 M in FY2000 and \$96 M in FY2001 to fund optional full day kindergarten. If the expected distributions exceed the total appropriation for the fiscal year, the Department of Education is to reduce each school corporation's distribution proportionately.

Indiana Technology Fund programs: For the biennium, \$66 M is appropriated from the Build Indiana Fund to the Indiana Technology Fund. These funds are to be allocated to Libraries (INSPIRE project), Intelnet, technology grants, the Department of Education's scientific instrument project, professional development in technology and the IHETS for the state backbone. This bill would require that the total technology grant plan amount distributed to a qualifying school corporation be \$100 per average daily attendance.

Reading Diagnostic and Remediation Program: This bill would establish the Reading Diagnostic and Remediation Program (the Program) and the Reading Diagnostic and Remediation Program Fund (the Fund). It would require that the Program and Fund be administered by the Department of Education (the Department). For FY2000 and FY2001, respectively, this bill appropriates \$4,524,000 and \$3,754,000 to the Fund from the State General Fund.

School Funding Formula: This bill would do the following regarding the school funding formula: 1) change the date by which the State Board of Tax Commissioners must notify school corporations of their property tax assessment ratios and adjustment factors; 2) modify the school corporation general fund property tax levy limitation formula; 3) modify the average daily membership adjustment component of the school funding formula; 4) use the adjusted ADM to determine previous year revenue for purposes of the school funding formula; 5) combine Primetime distributions to school corporations with state tuition support as part of the school funding formula; and 6) establish funding levels for various school formula components.

In addition it would require that the local match of state grants to school corporations for alternative education programs be 1/3 of the state grant rather than a flat \$250, and would extend provisions that convert school corporations from a calendar year budget to a fiscal year budget to the 2001 school year.

This bill would set the school funding formula caps for CY 2000 and CY 2001, respectively, at \$3,159,800,000 and \$3,346,200,000.

Alternative Schools: For FY2000 and FY2001, respectively, \$7.5 M would be appropriated from the State General Fund.

Indiana Twenty-First Century Growth Fund & Board: This fund is established to provide grants or loans to support various economic development proposals as outlined in the bill. The fund may consist of appropriations, gifts or grants and will be administered by the State Budget Agency (SBA). The Treasurer shall invest money in the fund not currently needed to meet the obligations of the fund. The Indiana Twenty-First Century Growth Board is established and consists of 8 members who will review proposals and make final funding determinations to be submitted to the SBA for review and approval. The Board may use money in the Fund to cover administrative expenses. Members of the Board are not entitled to per diem or reimbursement for expenses. The bill appropriates \$25 M in FY2000 and \$25 M in FY2001 to this Fund.

Pension Relief Fund: This bill increases from \$10 million to \$30 million the amount of Lottery revenue that is annually distributed to the Pension Relief Fund for police and fire pensions. Each year, Lottery revenue is first transferred to the Pension Relief Fund and the Teachers' Retirement Fund. Remaining Lottery revenue is then deposited in the Lottery and Gaming Surplus Account (LGSA) within the Build Indiana Fund (BIF). A statutorily-determined amount of revenue in the LGSA is transferred each year to the Motor Vehicle

Excise Tax Replacement Account (MVETRA) within the state General Fund. A portion of money remaining in the LGSA is then transferred to the State and Local Capital Projects Account (SLCPA) within the BIF. Based on projected gaming revenue, it is estimated that there will be sufficient revenue in the LGSA in FY2000 and FY2001 for distributions to MVETRA and the SLCPA after the additional \$20 million distribution to the Pension Relief Fund.

It is assumed that the annual appropriation is to the “m” portion of the Pension Relief Fund. This provides relief to those units most in need. It addresses the “distressed” communities. The distribution is based on calculation of the communities’ total net police and fire pension payment, with a qualification level of those communities with annual payments equal to or greater than 10% of the maximum property tax levy. The relief is focused on unfunded liabilities, allowing units to freeze those payments to their current percentage of the maximum levy.

Additional “m”	
<u>Year</u>	<u>Distributions</u>
2011	\$76,130,000
2012	\$88,936,000
2013	\$100,793,000
2014	\$111,086,000
2015	\$112,925,000
2016	\$113,825,000
2017	\$113,903,000
2018	\$112,836,000
2019	\$110,583,000
2020	\$47,784,000

The additional annual appropriation will extend the life of the “m” portion of the Pension Relief Fund by about 9.5 years, from 2011 to mid 2020. After the year 2020, the additional \$20,000,000 will come into the fund and be paid out immediately, with no earnings accruing to the fund. The original \$10 million in annual lottery revenue has been calculated as part of the base.

The bill also appropriates \$115 million in cash to fully fund the Teachers’ Retirement Fund Cost of Living Adjustment. The bill appropriates \$55 million in FY2000 and \$60 million in FY2001.

Property Taxes-Maximum Levies: If local civil unit levy growth is reduced by this bill then there would be a reduction in the state’s expense for Property Tax Replacement Credit (PTRC). The reduction would be equal to 20% of the levy reduction. Since homeowners’ property tax bills would be reduced by this bill, the amount needed to fund the State Homestead Credit would also be reduced. PTRC and homestead credits are paid from the Property Tax Replacement Fund which is supplemented by the state General Fund.

The total reduction in expenditures for the state under this provision is estimated at \$2.2 million in FY2000, \$6.8 million in FY2001, \$10.7 million in FY2002, \$15.7 million in FY2003, and \$21.1 million in FY2004. These estimated expenditure reductions assume that all taxing units levy their maximum levy. While this is not true for all taxing units, it is believed true for most. The actual state expenditure reduction under the provision may be slightly less than the above amounts.

Targeted Tax Reduction

Targeted Tax Reduction Fund: The Targeted Tax Reduction Fund (TTRF) is created by the bill. This bill

appropriates \$500 million to the TTRF from the state General Fund in the FY 2000-2001 biennium. Interest earned on money in the TTRF would be deposited back into the fund. Money in the TTRF would be used to pay for inventory tax credits and textbook credits.

If the entire \$500 million is transferred to the TTRF on July 1, 1999, it is estimated that the principal plus interest would be sufficient to fund the inventory and textbook credits through FY2007. The total payout from the TTRF through FY2007 is estimated at \$624 million.

Inventory Tax Credits: This bill would allow a property tax credit based on the amount of property tax paid on a taxpayer's inventory up to a maximum of \$12,500 in assessed value in each tax year beginning in CY2000. The credit would reduce the taxpayer's property net property tax bill. This credit would be paid from the Targeted Tax Relief Fund, also created by this bill. The payout from the fund for the inventory credits are estimated at \$15.5 million in FY2000 (½ year) , \$31.9 million in FY2001, \$32.7 million in FY2002, and \$33.7 million in FY2003. The tax credits would continue to grow after FY2003 by about 7% per year.

Textbook Credit: This bill provides a textbook credit for the first \$50 of charges imposed by a school corporation or an accredited nonpublic school for rental fees or other costs associated with textbooks or materials. To qualify for reimbursement, a school must submit a claim for reimbursement to the Department of Education for the actual amount of credits given. This credit would not be applicable to students who are eligible for free textbook rental (which is amended in the bill to include students eligible for free or reduced lunch.) The claims are to be paid from the Targeted Tax Relief Fund. It is estimated that this credit would cost approximately \$40.9 M in FY2000 and \$41 M in FY2001.

Supplemental Drinking Water and Wastewater Assistance Funds: The bill would allow the State Budget Agency to operate the Supplemental Drinking Water Assistance Fund and the Supplemental Wastewater Assistance Fund as one fund. This would simplify administration of the funds, but would not impact the amount of money appropriated to or the amount of money paid from the supplemental funds. The supplemental funds are funded through state appropriations.

Swap Agreements: This bill would also give the State Office Building Commission and the State Budget Agency access to the same financing options that are currently available to the Indiana Transportation Finance Authority. Access to these financing options may provide the State Office Building Commission and the State Budget Agency the opportunity to decrease borrowing costs. Lower borrowing costs would decrease lease or contract costs paid by the state.

Explanation of State Revenues: (Revised) *Income tax exemptions:* This bill increases the amount of personal exemptions for a taxpayer, spouse, dependents and blind/elderly which are currently set at \$1,000 per exemption to \$1,500. The provision makes the additional \$500 per child temporary income tax deduction to taxpayers for dependent children for tax years 1999 and 2000 permanent along with increasing the other exemptions to the same level.

Increasing these personal exemptions from \$1,000 to \$1,500 for tax years beginning January 1, 1999 would reduce individual income tax revenue by an estimated \$80.1 M in FY2000 and \$81.1 M in FY2001. The revenue loss to the state beginning in FY 2002 would be \$111.8 M in FY2002 and \$113.2 M in FY2003 due to the expiration of the temporary dependent children exemption (which is approximately \$28.9 M of this revenue impact in FY2000 and \$29.3 M in FY2001.) Individual income tax revenue is deposited in the General Fund.

State Gaming Fund: This bill changes the State Gaming Account (within the state General Fund) to the State Gaming Fund. Revenue from riverboat licenses, the riverboat wagering tax, and penalties is currently deposited in the State Gaming Account. Funds are then appropriated to the Indiana Gaming Commission to administer riverboat gaming. It provides that money in the State Gaming Fund does not revert to the state General Fund at the end of the fiscal year.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) This bill makes appropriations for tuition support, Property Tax Replacement Credits and Homestead Credits.

County Welfare: This bill eliminates the County Welfare, County Family and Children's, and Welfare Administration Funds and the property tax levies for those funds. The revenue reduction from the elimination of these funds (including gross property tax levies, excise tax, and FIT) is estimated at \$308.4 million in CY2000, \$342.3 million in CY2001, \$360.3 million in CY2002, and \$379.2 million in CY2003. Local expenditures would be reduced by the same amount.

Property taxpayers' net levies would be reduced by approximately \$213.5 million in CY2000, and \$237.4 million in CY2001. The net levy amount takes PTRC and Homestead Credit into consideration. The statewide net tax rate reduction is estimated to be \$0.3841 in CY2000 and \$0.4144 in CY2001.

Tax increment financing (TIF) allocations are equal to the incremental assessed value in a TIF area multiplied by the taxing district's tax rate. As a consequence of eliminating these welfare levies and tax rates, TIF proceeds would be reduced. If the welfare tax rates had been eliminated in CY 1998, TIF districts, statewide, would have lost about \$4.8 million. It is estimated that the loss to TIF districts under this provision will be about \$5.3 million in CY2000, \$5.6 million in CY2001, \$5.9 million in CY2002, and \$6.2 million in CY2003.

Education- Reading Diagnostic and Remediation Program: This bill would allow school corporations to receive Diagnostic and Remediation Reading Grants from the Department.

Income Tax Exemptions: The increase in the personal exemptions will reduce taxpayers' Indiana adjusted gross income and affect the base for calculating local option income taxes. Counties who have adopted a local option income tax will lose an indeterminable amount of local option income tax revenue.

Inventory Tax Credit: Total local revenues would not be affected by this provision. Payments from the state Targeted Tax Relief Fund will pay for the credits. Inventory taxpayers would receive reductions of their net property tax payments in the amount of \$31.0 million in CY2000, \$32.8 million in CY2001, \$32.6 million in CY2002, and \$34.8 million in CY2003. The tax credits would continue to grow after CY2003 by about 7% per year.

Property Taxes - Maximum Levies: Currently, civil taxing units receive maximum levy increases equal to their three year average assessed value growth quotient, with a minimum of 5% and a maximum of 10%. This proposal would change the minimum 5% max levy increase to 4%. It would also change the maximum max levy increase from 10% to 8%.

Since most units' actual growth rates are under the 5% minimum (the average is about 3%), this provision would cause the growth in local civil units' levies and tax rates to slow. The amount by which the levy

growth slows is dependent upon the unit's actual three year AV growth quotient, and whether the unit sets the tax levy at the maximum permissible levy. The maximum levy reduction would amount to approximately \$18.5 million in CY2000, \$38.8 million in CY2001, \$61.0 million in CY2002, \$85.3 million in CY2003, and \$111.9 million in CY2004.

These maximum levy reductions would equate to actual levy reductions if it is assumed that all taxing units levy their maximum levy. While this is not true for all taxing units, it is believed true for most. The actual levy reduction under the proposal may be slightly less than the above amounts.

State Agencies Affected: All

Local Agencies Affected: All

Information Sources: State Budget Agency; Department of Education; Family and Social Services Administration - Division of Family and Children; Local Government Database; *1998 Property Tax Analysis*, State Tax Board; Department of Revenue.